

**SECURITIES AND EXCHANGE COMMISSION
New York Regional Office
3 World Financial Center – Room 400
New York, New York 10281-1022
(212) 336-0175
Valerie A. Szczepanik
Audry Weintrob**

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

-----x
:
SECURITIES AND EXCHANGE COMMISSION, :
:
Plaintiff, :
:
- against- : 07-CV-8385 (GEL)
:
MORRIS GAD AND NATHAN ROSENBLATT, :
:
Defendants. :
-----x

DECLARATION OF AUDRY WEINTROB

AUDRY WEINTROB, pursuant to 28 U.S.C. § 1746, declares as follows:

1. I am employed as a Senior Attorney in the New York Regional Office of the United States Securities and Exchange Commission, and I am admitted to practice before this Court. I make this declaration in support of the Commission's opposition to defendant Morris Gad's and defendant Nathan Rosenblatt's Motion to Dismiss the complaint.

2. Annexed to this declaration are true and correct copies of the following documents:

a. Exhibit 1 is a spreadsheet containing the historical prices and trading volumes of NBTY, Inc. stock from June 1, 2004 through July 30, 2004. The spreadsheet was downloaded from the Yahoo! Finance website at

<http://finance.yahoo.com>. Such market quotations are generally used and relied upon by the public and persons in the securities industry.

b. Exhibit 2 is an Adams Harkness Research Note on NBTY, dated July 23, 2004, entitled "Rexall ride comes to an end; Downgrade from Strong Buy."

c. Exhibit 3 is an RBC Capital Markets Research Comment on NBTY, dated July 23, 2004, entitled "Q3 Earnings: Slower Sales Compounded By Weak Margins."

d. Exhibit 4 is a Citigroup/Smith Barney Research Report on NBTY, dated July 22, 2004, entitled "NTY: Flash: 11c EPS Miss; Deteriorating Trends."

I state under penalty of perjury that the foregoing is true and correct.

Executed on: November 14, 2007
New York, New York

Audry Weintrob
AUDRY WEINTROB

EXHIBIT 1

Date	Open	High	Low	Close	Volume	Adj Close
7/30/2004	21.1	21.91	20.7	21.76	1337400	21.76
7/29/2004	20.36	21.25	20.2	20.92	1147800	20.92
7/28/2004	20.2	20.55	19.62	20.11	581500	20.11
7/27/2004	19.7	20.6	19.68	20.5	784700	20.5
7/26/2004	19.7	20.2	19.66	19.85	1812100	19.85
7/23/2004	22.5	22.5	19.41	19.68	8583700	19.68
7/22/2004	24.5	24.75	23.85	24.5	927800	24.5
7/21/2004	24.75	25.11	24.5	24.67	861200	24.67
7/20/2004	24.63	24.8	23.64	24.61	1296400	24.61
7/19/2004	24.95	25.09	24.61	24.7	696400	24.7
7/16/2004	24.9	25.19	24.68	25.03	565300	25.03
7/15/2004	25	25.6	24.9	24.95	796600	24.95
7/14/2004	27.49	27.49	24.74	25.24	2742100	25.24
7/13/2004	28.02	28.16	27.74	27.77	444700	27.77
7/12/2004	27.95	28.25	27.95	28	227700	28
7/9/2004	28.21	28.57	28	28	336900	28
7/8/2004	28.55	28.63	28.07	28.21	441800	28.21
7/7/2004	28.59	29.1	28.59	28.61	368100	28.61
7/6/2004	28.98	29.24	28.44	28.64	390800	28.64
7/2/2004	29.42	29.45	29.1	29.11	286700	29.11
7/1/2004	29.46	29.86	29.35	29.46	858400	29.46
6/30/2004	29.35	29.52	29.29	29.39	713400	29.39
6/29/2004	29.75	29.83	29.19	29.4	1437900	29.4
6/28/2004	30.03	30.15	29.61	29.68	817900	29.68
6/25/2004	29.55	30.12	29.04	29.96	2015300	29.96
6/24/2004	29.35	29.53	28.85	29.49	800900	29.49
6/23/2004	28.75	29.53	28.25	29.22	1552600	29.22
6/22/2004	27.7	28.32	27.2	28.25	3011700	28.25
6/21/2004	27.1	27.5	26.97	27.27	1245700	27.27
6/18/2004	26.98	27.5	26.25	27.1	3618700	27.1
6/17/2004	32	32	26.68	26.99	8299300	26.99
6/16/2004	37.02	37.02	36.14	36.5	289900	36.5
6/15/2004	35.86	37.16	35.86	36.82	302900	36.82
6/14/2004	36.73	36.73	35.6	35.66	488900	35.66
6/10/2004	37.5	37.5	36.72	36.73	363200	36.73
6/9/2004	37.63	37.86	37.39	37.44	268500	37.44
6/8/2004	37.75	38	37.48	37.81	390000	37.81
6/7/2004	36.65	37.62	36.39	37.62	295300	37.62
6/4/2004	36.42	36.86	35.9	36.31	260000	36.31
6/3/2004	37.05	37.05	36.17	36.17	291100	36.17
6/2/2004	37.05	37.1	36.79	37	441000	37
6/1/2004	36.92	37.24	36.5	36.96	281200	36.96

EXHIBIT 2



Adams Harkness
Boston New York San Francisco

**Better Food & Nutrition
Research Note**

July 23, 2004

Scott Van Winkle, CFA
617-371-3759
svw@adamsharkness.com

NBTY

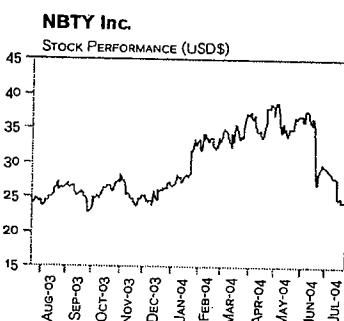
NTY - \$24.50 - Buy

Rexall ride comes to an end; Downgrade from Strong Buy

Stock summary: NBTY is the leading player in a consolidating category with the best balance sheet and significant consolidation opportunities, and is gaining market share.

- * Misses quarter by \$0.10, of which \$0.03 was higher advertising and \$0.07 was due to a \$17M revenue miss. Rexall results indicate to us there may be integration issues.
- * Recent category weakness isn't new news, but dramatic decline of Rexall revenue and margin impairs our investment thesis that Rexall synergies will drive incremental earnings growth. Lowering rating to Buy from Strong Buy as a result.
- * Valuation of 11x CY04 free cash flow should set a floor for the stock. However, our \$29 12-month PT is unlikely to be achieved near-term as stock sits in penalty box.
- * Cutting FY04 EPS estimate to \$1.66 from \$1.85 and FY05 to \$1.95 from \$2.25. We are essentially back to the estimates we first forecasted after Rexall acquisition, which we later increased on the heels of the blowout Q2.
- * Lack of evidence that July trends have recovered is concerning, as we initially assumed June category weakness simply related to broadly weak June retail sales.
- * Gross margin was issue on conference call, but it was in line with our company-wide expectation. Wholesale margin weakness was negative surprise, though.
- * Our new 8% internal growth estimate for base wholesale business is down just modestly, but we now forecast a YOY decline at Rexall, which negates much of the wholesale margin improvement we had estimated.

NEXT CATALYST:
AH Summer Seminar
presentation on 8/4/04



Company Description: NBTY is the nation's dominant vitamin mail-order operation, the leading retailer of nutritional supplements in the U.K., a leader in the US nutritional supplement wholesale channel and operates the 500+ store Vitamin World chain domestically.

Market Data

52-wk range	40.21
Market cap (B)	1.7
Shares out (M)	69.2
Avg. daily volume	866,454

Change in EPS Estimates

	New	Old
Current Q	0.35	0.44
FY04	1.66	1.85
FY05	1.95	2.25

EPS

	Sep03	Sep04E	Sep05E
DecQ1	0.24	0.64A	
MarQ2	0.34	0.60A	
JunQ3	0.37	0.67A	
SepQ4	0.31	0.85	
FY	1.27	1.66	1.95
P/E	19.3x	14.7x	12.5x
CY	1.37	1.72	2.00
P/E	17.6x	14.0x	12.0x

Revenues (M)

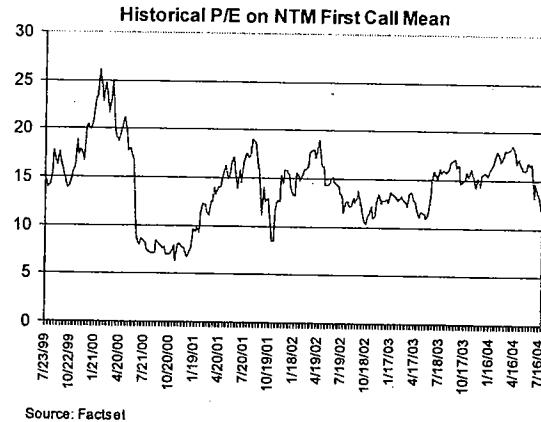
	Sep03	Sep04E	Sep05E
DecQ1	241.4	385.1A	
MarQ2	274.6	439.6A	
JunQ3	308.5	399.9A	
SepQ4	364.8	392.1	
FY	1,192.5	1,616.7	1,682.6
P/S	1.4x	1.0x	1.0x
CY	1,356.2	1,684.5	1,702.1
P/S	1.6	1.0x	1.0x

Please see important disclosures on the last page of this report.

Adams Harkness

Conclusion

We didn't expect anything positive from the quarterly report, but we did expect an indication that the sky wasn't falling and that our investment thesis remained intact. Going into the Q3 report, we assumed that mail order was healthy and simply stumbled on a sales shift, Vitamin World was weak in all respects, wholesale was softer but intact, and that Holland & Barrett was rolling along as expected. What we learned last night was that mail order is in fact healthy (surpassed our EBIT forecast) and Vitamin World is still weak. However, wholesale is much softer than thought and it appears mostly related to Rexall (lower revenue and margin than forecast), and Holland & Barrett comp trends are fine but margins dipped unexpectedly (and more so than just the less favorable currency impact sequentially). Given the deterioration of margins and miss relative to our forecasts in nearly all businesses, we can only conclude that there is more than just a timing shift and soft vitamin retail environment at play. The Rexall integration appears to have hit some stumbling blocks, illustrated by both the dramatic sequential revenue decline and sharply lower EBIT margins. Our Strong Buy thesis was predicated on accelerated earnings growth driven by the Rexall acquisition that looked very real after the first couple of quarters following the acquisition. With Rexall sales and margins off dramatically in Q3, our thesis is longer applicable. We now rate the share Buy, which -- given the near-trough valuation and respectable earnings growth -- looks appropriate. Our \$29 12-month price target is based on the shares recovering to the 5-year average P/E of 14.4. While the recent results are disappointing, the trends have simply returned to the norm with high single-digit internal growth, good margins (albeit lower than expectations), strong free cash flow, and our estimates back close to our initial forecasts following the acquisition. However, we do not anticipate a swift recovery in the near term, given how the recent share weakness has unfolded.



Rexall Acquisition not unfolding as expected

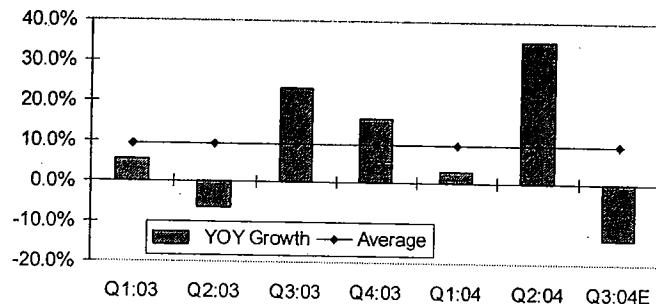
NBTY acquired Rexall Sundown just about one year ago. We assumed that the deal would add \$0.58 to EPS and our initial FY04 EPS estimate was raised to \$1.70 (now \$1.66). The deal was in fact wildly accretive and the next 3 quarters illustrated the accretion from the acquisition. We initially assumed close to \$400M of Rexall revenue in FY04, which begin to decline attributable to NBTY taking product returns from retailers and reallocating shelf space, often to NBTY brands. However, the Q3 Rexall revenue of \$66 million implies closer to a \$260 million current Rexall run rate, which implies much more than re-allocated shelf space. It is likely that the Carb Solutions brand is seeing soft sales as the low-carb market place has become increasingly competitive, but we can't attribute all of the weakness to Carb Solutions.

Thus, our only conclusion is that there are broader issues due to the integration of Rexall into NBTY. We don't want to overanalyze the Rexall integration, as all integrations run into speed bumps, but our near-term enthusiasm for the stock was predicated on realization of incremental Rexall accretion over and above our initial forecast and it now appears that our initial forecast is in jeopardy. Rexall will prove to be a good acquisition, in our opinion; we simply have to lower our expectations given the sales and margin trends.

Mail order looks fine

Mail order was the big disappointment relative to expectations when NBTY initially issued its Q3 warning in mid-June. However, our opinion then, and now, is that mail order is in fact healthy. On a combined Q2/Q3 basis, sales were up almost 10% YOY and operating profit was up 18%. Despite the fact that Q3 sales were slightly below our revised mail order forecast (\$52.5M vs. \$53.6M), operating profit was actually favorable to our estimate (\$16.3M vs. \$15.5M). We expect a solid recovery in mail order sales growth in Q4.

Mail Order Quarterly Revenue Growth



Source: Company Reports

Vitamin World is just not large enough to matter

Vitamin World comps were down 4% YOY vs. our estimate of a 1% decline. Margins were also lower than forecast at -2% vs. flat. However, even though revenue and EBIT margin was below our estimate, Vitamin World contributed less than \$0.01 of the earnings miss. We have never had big expectations for this business and our new estimates assume only modestly lower profit contribution and do not assume a recovery until the comparisons ease in the back-half of 2004. We believe that traffic is being negatively affected by the fact that 14% of Vitamin World sales were low-carb last year and low-carb products are now ubiquitous in the mass-market channels.

Holland & Barrett performing well, but not strong enough to offset the other business weakness

Comps were up 3% and EBIT rose 47% YOY. It is clear to us that improvements have taken hold at the GNC UK business acquired last year. However, H&B was below our forecast for both revenue and earnings, and the trends deteriorated throughout the quarter. Currency wasn't quite as favorable sequentially, but the sequential margin decline cannot be completely attributed to currency. We are not concerned about the bigger picture at H&B, but we will begin to face more difficult comparisons soon. We believe that the most significant opportunity over the next 5 years is in fact in Europe and H&B continues to be one of the best performers in the NBTY portfolio.

Adams Harkness

Revising estimates

We are lowering our sales and earnings estimates to reflect the softer EBIT growth at nearly all of NBTY's segments. We are reducing our Q4 revenue and EPS estimates to \$392M and \$0.35, from \$402M and \$44, respectively. The largest driver of the change is lower wholesale revenue and margin, which have reduced to reflect our concerns around the Rexall trends. We also trimmed our Vitamin World estimates modestly, but actually increased our mail order estimate. For FY04, our revenue and EPS estimates go to \$1.62B and \$1.66 from \$1.64 and \$1.85, respectively. For FY05, we continue to anticipate higher margins, somewhat due to easier back-half comparisons than previously assumed. We are trimming our revenue and EPS estimates to \$1.68B and \$1.95 from \$1.74B and \$2.25, respectively. We estimate that NBTY will use its free cash flow to reduce debt by up to \$150M, contributing about \$0.06 to earning growth.

Price Target

Our \$29 price target is based on a 14.4 P/E multiple on our CY05 EPS estimate of \$2.00.

Risks

Key risks that may impede achievement of our price target include:

- * **Leverage:** Net debt is now roughly \$257M and the debt-to-equity ratio is 33%, which could add to earnings volatility. NBTY should generate close to \$150M of free cash this year, which should mitigate the risk.
- * **Acquisition integration risks:** There are a host of integration risks regarding the Rexall acquisition including sales disruptions, loss of key personnel, corporate culture shock, management resource strain, and achieving cost reduction targets.
- * **NBTY provides no quarterly earnings guidance,** which can add to stock price volatility.
- * **The nutritional supplement industry is highly correlated to the pace and opinion of research and media on the efficacy of nutritional supplements.**
- * **Exchange Rate Risk:** NBTY currently operates close to 600 retail stores in Europe, which account for roughly 50% of NBTY's EBIT. Fluctuations in the Dollar/Euro exchange rate will have an impact on NBTY's profitability.

Analyst Certification

By issuing this research report, Scott Van Winkle certifies that: (i) the views expressed in the report accurately reflect the analyst's personal views as to the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the report.

NBTY, Inc. Quarterly Income Statement

Fiscal Year End - September
Scott Van Winkle, CFA - 617-371-3755
svw@adamsharkness.com

(in millions, except per-share data)

Income Statement (in millions, except per-share data)									
2005E									
2001		2002		2003		2004E		2005E	
FY	Q1	Q2	Q3	Q4*	FY	Q1A	Q2A	Q3A	Q4
Revenues	806.9	215.1	252.0	245.5	964.1	241.4	277.8	308.5	364.8
Expenses:									
COGS	(355.0)	(100.9)	(113.0)	(111.9)	(107.8)	(433.6)	(106.7)	(124.7)	(141.2)
Catalog/Promotion	(49.4)	(9.0)	(12.7)	(12.5)	(13.6)	(47.8)	(10.7)	(16.8)	(15.4)
SG&A	(315.2)	(81.9)	(86.6)	(89.2)	(89.7)	(347.7)	(93.4)	(99.2)	(110.9)
Operating Income	87.3	23.3	39.2	38.3	34.4	135.7	27.5	37.2	41.0
Interest	(22.0)	(6.0)	(4.2)	(4.4)	(3.9)	(18.5)	(4.0)	(3.8)	(3.9)
Miscellaneous, net	2.5	0.9	1.2	0.3	(0.8)	1.6	1.2	2.3	2.0
Prefax Income	67.9	18.2	36.1	34.2	29.7	118.2	24.7	35.7	39.1
Income Tax	(26.0)	(7.0)	(13.9)	(13.6)	(11.4)	(45.9)	(8.1)	(12.1)	(13.6)
Net Income	41.9	11.2	22.2	20.6	18.3	72.3	16.6	23.6	21.5
Average Shares	67.0	67.3	67.8	68.0	68.0	67.8	68.1	68.3	68.8
EPS	\$0.63	\$0.17	\$0.33	\$0.30	\$0.27	\$1.07	\$0.24	\$0.34	\$0.37
* Fully taxed at 38.5%. Actual tax rate was 16.5%.									
Calendar Revenue	855.2	990.4	1,336.2	1,634.5	1,702.1				
Calendar EPS	\$0.78	\$1.14	\$1.37	\$1.72	\$2.00				
Margin Analysis									
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Margin	56.0%	53.1%	55.1%	55.6%	56.1%	55.0%	55.8%	54.2%	53.6%
Catalog/Promotion	6.1%	4.2%	5.1%	5.0%	5.5%	5.0%	5.7%	5.0%	5.6%
SG&A	39.1%	38.1%	34.4%	35.4%	36.6%	36.6%	38.7%	36.0%	35.3%
Operating Margin	10.8%	10.8%	15.6%	15.2%	14.0%	14.0%	11.4%	13.4%	9.6%
Interest	2.7%	2.8%	1.7%	1.7%	1.6%	1.6%	1.7%	1.4%	1.6%
Prefax margin	8.4%	8.4%	14.4%	13.6%	12.1%	12.3%	10.2%	12.8%	8.0%
Net margin	5.2%	5.2%	8.8%	8.2%	7.5%	7.5%	6.9%	8.5%	5.7%
Tax Rate	38.2%	38.5%	38.5%	38.5%	38.9%	38.9%	32.7%	34.0%	26.3%
Rev. Growth (Vs. Year Ago)									
Rev. Growth	11.9%	28.9%	11.9%	23.6%	16.1%	19.5%	12.2%	10.4%	22.4%
EBIT Growth	(7.9%)	386.2%	19.9%	41.8%	52.3%	54.8%	18.2%	(5.1%)	1.9%
Pre-Tax Income Growth	(15.6%)	1648.8%	23.8%	57.5%	86.3%	74.1%	36.0%	(1.2%)	14.2%
Net Income Growth	(16.1%)	1647.1%	23.7%	54.4%	83.0%	72.4%	48.9%	6.1%	17.5%
Estimates and results exclude all non-recurring items.	(13.5%)	1647.2%	20.6%	52.3%	82.0%	70.4%	47.1%	5.2%	22.9%
2005E									
Rev. Growth	11.9%	28.9%	11.9%	23.6%	16.1%	19.5%	12.2%	10.4%	22.4%
EBIT Growth	(7.9%)	386.2%	19.9%	41.8%	52.3%	54.8%	18.2%	(5.1%)	1.9%
Pre-Tax Income Growth	(15.6%)	1648.8%	23.8%	57.5%	86.3%	74.1%	36.0%	(1.2%)	14.2%
Net Income Growth	(16.1%)	1647.1%	23.7%	54.4%	83.0%	72.4%	48.9%	6.1%	17.5%
Estimates and results exclude all non-recurring items.	(13.5%)	1647.2%	20.6%	52.3%	82.0%	70.4%	47.1%	5.2%	22.9%

Calendar Revenue 855.2

Margin Analysis		Q1 Performance		Q2 Performance		Q3 Performance		Q4 Performance		Annual Total	
Category	Value	Category	Value	Category	Value	Category	Value	Category	Value	Category	Value
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Margin	56.0%	53.1%	55.1%	55.6%	56.1%	55.0%	55.8%	55.1%	54.2%	50.5%	53.6%
Catalog/Promotion	6.1%	4.2%	5.1%	5.0%	5.5%	5.0%	5.7%	6.0%	5.0%	5.6%	5.2%
SG&A	39.1%	38.1%	34.4%	35.4%	36.6%	36.0%	38.7%	35.7%	36.0%	35.3%	36.2%
Operating Margin	10.8%	10.8%	15.6%	15.2%	14.0%	14.0%	11.4%	13.4%	13.3%	9.6%	11.8%
Interest	2.7%	2.8%	1.7%	1.7%	1.6%	1.9%	1.7%	1.4%	1.3%	1.6%	1.5%
Pretax margin	8.4%	8.4%	14.4%	13.6%	12.1%	12.3%	10.2%	12.8%	12.7%	8.0%	10.8%
Net margin	5.2%	5.2%	8.8%	8.2%	7.4%	5.9%	6.9%	8.3%	8.3%	5.9%	7.3%
Tax Rate	38.2%	38.5%	38.5%	39.7%	38.9%	37.5%	37.7%	39.2%	39.2%	38.0%	38.7%

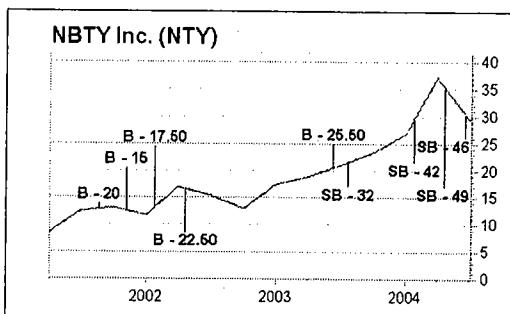
111

Boy Growth Wives 11

EPS Growth Estimates and results exclude all non-recurring items.

Adams Harkness

The following chart presents our rating and price target history for the subject company through the end of the most recent quarter.



Important Disclosures

Adams Harkness uses the following ratings system: Strong Buy - up 25%+; Buy - up 10%-25%; Market Perform (Hold) - up 10% to down 10%; Reduce - down 10%-25%; Sell - down 25%+. All of the ratings are based on expected performance relative to the relevant industry sector over the next 12 months. As of June 30, 2004, Adams Harkness had assigned a "buy" rating (includes Strong Buy and Buy) to 73% of the stocks it had under coverage, a "hold" rating to 23% of the stocks under coverage, and a "sell" rating (includes Reduce and Sell) to 4% of the stocks under coverage. For the 12-month period ending June 30, 2004, Adams Harkness had received compensation for investment banking services from 26% of the companies with a "buy" rating, 2% of the companies with a "hold" rating, and 13% of the companies with a "sell" rating. For charts depicting the price target and rating history through the most recent quarter of securities we have had under coverage for at least one year, please visit www.ahh.com/html/pricecharts.html or write to Editorial, Adams Harkness, 99 High Street, Boston, MA 02110.

NBTY is contained within Adams Harkness's investment banking industry focus; therefore, Adams Harkness intends to seek, and if successful would expect to receive, compensation for investment banking services in the next three months. The research analyst receives compensation based on, among other factors, the overall profitability of Adams Harkness, including income derived from investment banking and trading revenues. Additional information on the securities is available on request.

Disclaimers

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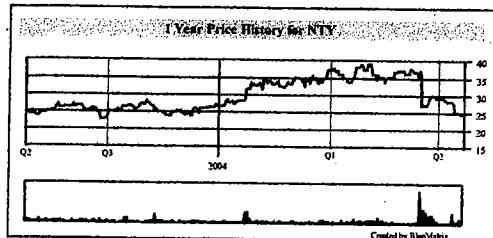
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EXHIBIT 3

RBC
Capital
Markets

Research Comment

July 23, 2004

**Carole Buyers, CFA**

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Andrew Hodson

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Price: 24.50 **Price Target:** 26.00 ↓ 32.00
52-Wk High: 39.61 **52-Wk Low:** 20.64
Float (MM): 45.1 **Debt to Cap:** 45.4%
Shares Out (MM): 69.1 **Market Cap (MM):** 1,693
Dividend: 0.00 **Yield:** 0.0%
Tr. 12 ROE: 19.60% **Est 3-Yr EPS Gr:** 15.00%
Trading Vol. **(MM):** 935.000

Institutional Own.: 62%

(FY Sep)	2002A	2003A	2004E	2005E
EPS	1.15	1.33	1.72	1.93
Prev.			1.82	2.09
P/E	21.30x	18.42x	14.24x	12.69x
Revenue Net (MM)	--	\$1.19bn	\$1.61bn	\$1.69bn
Prev.			\$1.63bn	\$1.72bn
MktCap/Rev	NA	1.42x	1.05x	1.00x
EPS	Q1	Q2	Q3	Q4
2002	0.17A	0.33A	0.30A	0.36A
2003	0.24A	0.34A	0.43A	0.31A
2004	0.34A	0.60A	0.37A	0.41E
Prev.			0.47E	
2005	0.39E	0.57E	0.49E	0.49E
Prev.	0.43E	0.62E	0.55E	
Revenue Net (MM)				
2003	241.40A	277.80A	308.50A	364.80A
2004	385.10A	439.59A	399.91A	382.78E
Prev.			410.83E	392.94E
2005	405.94E	463.32E	421.81E	403.50E
Prev.		433.30E	414.13E	

All values in USD unless otherwise noted.

NBTY, Inc

(NASDAQ: NTY)

0478

Sector Perform**Above Average Risk**

Company Update
 Price Target
 Downgrade
 EPS Revision

Q3 Earnings: Slower Sales Compounded By Weak Margins**Event**

NBTY Q3 Earnings

Investment Opinion

- **Q3 Shortfall Compounded By Weak Margins in Wholesale:** NBTY reported EPS of \$0.37, missing our previously lowered estimate of \$0.47 and the Street estimate of \$0.50. Q3 earnings compare to \$0.43 last year. The downside to our estimate came primarily from weaker sales and gross margin in its wholesale division. While total sales for its wholesale division increased 83%, Rexall sales were notably weak and internal growth increased 10% (a marked deceleration in its internal revenue growth which had been tracking closer to 25%). Wholesale gross margin declined 500 basis points and NBTY's total gross margin decreased 350 basis points. Management did not fully explain the deterioration, however, we can conclude one or all of the following impacted margin: higher retail promotions; greater mix of private label and pricing pressure.
- **Review of Other Business Segments:** As expected, NBTY's direct segment declined 13.7%, previously explained by difficult comparisons. Given the inherent volatility in this business, we fully expect this division to return to positive growth. Holland & Barrett, NBTY's U.K. division, reported same-store sales growth of 14%. Given the strength in this business through May was up 28%, the 14% reported comp implies June dropped off significantly. Finally, as expected Vitamin World reported a 4% decline in same-store sales and a loss of \$1 million for the quarter.
- **Lowering Estimates Again:** We are revising our 2004/2005 estimates to \$1.72/\$1.93, respectively from \$1.82/\$2.09.
- **Opinion and Target:** As mentioned in our July 13th note, given the magnitude of weakness at retail, we may not get the snapback in sales in the next quarter. In addition, given management does not provide forward guidance we believe street estimates need to be lowered. We are maintaining our Sector Perform rating and lowering our price target to \$26 (13x CY-05 estimate of \$2.02) from \$32.

Valuation

We are lowering our price target to \$26 from \$32. Our revised price target assumes a multiple of 13x our revised CY-05 EPS estimate of \$2.02, representing a 50% discount to other "healthy lifestyles" companies. We believe this discount accounts for the more difficult conditions in the dietary supplement category. In addition, in periods of earnings uncertainty, NBTY's forward multiple can trade as low as 10x; and in periods of earnings acceleration, NBTY's forward multiple can trade as high as 17x.

Price Target Impediment

A prolonged decline in industry sales and difficulty integrating acquisitions could impede achievement of our price target.

Company Description

NBTY, Inc. (Bohemia, New York) is a leading vertically integrated manufacturer, marketer, and retailer of value-priced nutritional supplements in the United States and United Kingdom.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

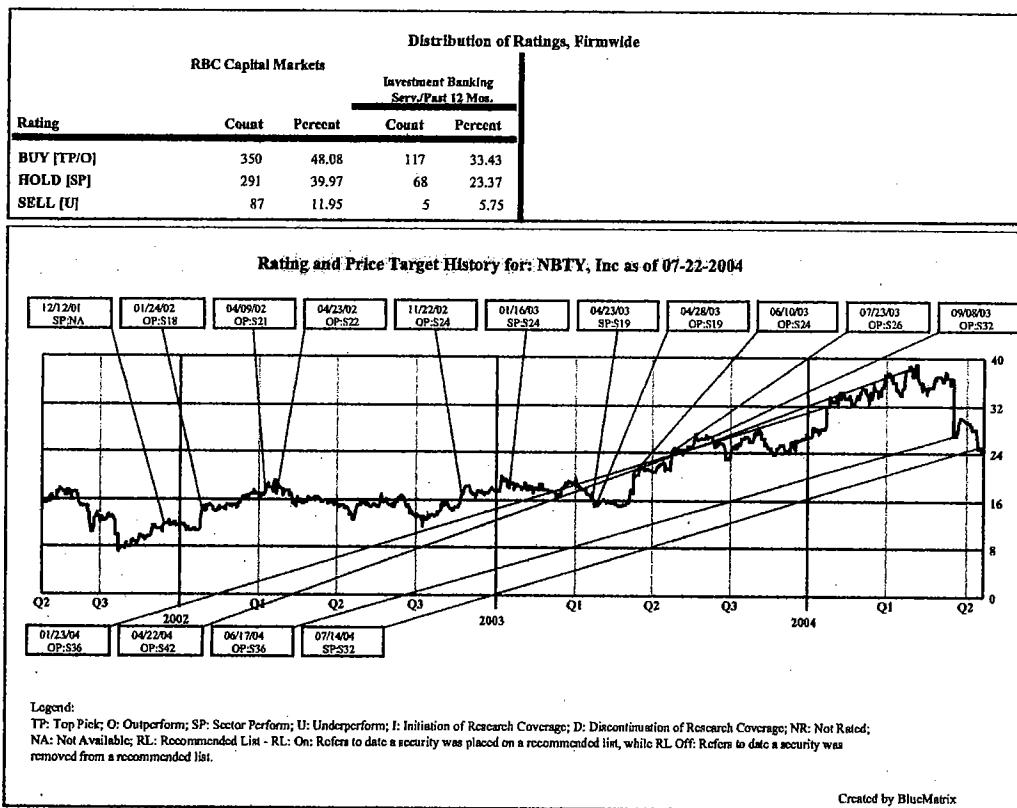
- Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
- Outperform (O):** Expected to materially outperform sector average over 12 months.
- Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.
- Underperform (U):** Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

- Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
- Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
- Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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EXHIBIT 4



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Estimate Change

Smith Barney

Small/Mid-Cap Research

NBTY (NTY)**NTY: Flash: 11c EPS Miss; Deteriorating Trends**

HOLD (2)
High Risk (H)

Mkt Cap: \$1,629 mil.

July 22, 2004**SUMMARY**

- Deteriorating trends in June led to an 11c EPS miss (or 13c using a normalized tax rate) in 3Q04. July trends do not appear to have improved. Despite preannouncing April/May sales, total 3Q sales were still \$15mm below the consensus sales est of \$415mm.
- Major reasons for the miss incl: Vitamin World comps declining 4% due to a shift in sales to mass channels from specialty, yet we est. NTY's internally generated wholesale sales growth was up low single digits (further decelerated in June) in 3Q from the mid twenty percent range over the previous 3 Qs. Catalog sales also decelerated in June contrary to speculation and mgmt guidance on its 6/17 conference call. Additionally, Holland & Barrett comps (ex-currency) decelerated to 3% in 3Q04 from 6% 2Q04.
- Given the magnitude of the miss and apparent deteriorating trends, our EPS est and target price are under review.

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FUNDAMENTALS

P/E (9/04E).....	13.8x
P/E (9/05E).....	11.8x
TEV/EBITDA (9/04E)	7.8x
TEV/EBITDA (9/05E)	6.9x
Book Value/Share (9/04E).....	\$10.04
Price/Book Value	2.4x
Revenue (9/04E)	\$1,650.0 mil.
Proj. Long-Term EPS Growth	20%
ROE (9/04E)	4.8%
Long-Term Debt to Capital(a).....	32.7%

SHARE DATA

Price (7/22/04)	\$24.50	Rating (Cur/Prev).....	2H/2H
52-Week Range	\$39.61-\$20.64	Target Price (Cur/Prev)...	\$26.00/\$26.00
Shares Outstanding(a)	66.5 mil.	Expected Share Price Return	6.1%
Div(E) (Cur/Prev)	\$0.00/\$0.00	Expected Dividend Yield.....	0.0%
		Expected Total Return.....	6.1%

EARNINGS PER SHARE

FY ends	1Q	2Q	3Q	4Q	Full Year
9/03A	Actual	\$0.24A	\$0.34A	\$0.37A	\$0.31A
9/04E	Current	\$0.34A	\$0.60A	\$0.37A	\$0.41E
	Previous	\$0.34A	\$0.60A	\$0.43E	\$0.41E
9/05E	Current	NA	NA	NA	NA
	Previous	NA	NA	NA	NA
9/06E	Current	NA	NA	NA	NA
	Previous	NA	NA	NA	NA

(a) Data as of most recent quarter

First Call Consensus EPS: 9/04E \$1.87; 9/05E \$2.24; 9/06E NA
 Calendar Year EPS: 12/03A \$1.32; 12/04E \$1.90; 12/05E \$2.12; 12/06E NA

VALUATION

Our \$26 target price is derived primarily using a P/E relative to the food supplier group and secondarily using a PEG ratio. We believe NBTY should trade at a 25% discount to the food supplier's forward P/E (4 quarters) of 16.5x. While NBTY is less liquid and has greater earnings volatility compared to the food suppliers, NBTY has a higher forecasted EPS

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NBTY 2922



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growth rate (20% vs. high single digits for the food suppliers, by our estimates). However, given the recent slow-down in its US operations and our belief that trends have not improved, we believe there is greater risk to NBTY's estimates, and are therefore assuming the stock trades at a 25% discount to the food supplier group. Thus, applying a 12.4x target multiple to our calendar 2005 EPS estimate of \$2.12 results in a \$26 target price.

We use additional valuation methodologies to derive our target price on NBTY, specifically a PEG ratio. On an absolute PEG basis, for the past five years, we find the median PEG ratio for NBTY has been 0.8x. We think, given NBTY's acquisition strategy, the stock's current PEG should trade at a 25% discount to its historical median given continued deteriorating sales trends. Applying the adjusted PEG ratio of 0.60 to our long-term growth rate of 20% and our calendar 2005 EPS estimate of \$2.12, results in a target price of ~\$26.

RISKS

We hold a High Risk rating on the shares. While NBTY carries a low beta, holds a strong interest coverage position (we forecast an interest coverage ratio of 11x for fiscal 2004), a low total debt to total capital ratio (forecasted at 33% for fiscal year end 2004), and has projected earnings growth of 20%, we believe a High Risk rating is appropriate given weak industry fundamentals, historically inconsistent earnings results, and company-specific risks mentioned below. Risks to the stock achieving our target price include: NBTY's recent sales slowdown within the U.S. retail and catalog operations and NBTY's "vulture" acquisition strategy (i.e., buying bankrupt companies at pennies on the dollar). As with any consolidation strategy, NBTY may have trouble integrating the operations of acquired companies. They could also have problems with the acquisition of a larger company. Also, a reversal of the recent currency trends could potentially hurt the profits of its U.K. business. Additionally, soft pricing trends could continue as NBTY's wholesale competitors may discount products in order to improve short-term cash flow as they are struggling to merely pay their bills and meet debt obligations. We continue to be negative on the vitamin industry (a sub sector of the Natural Products sector, which we view favorably), given a lack of new product introductions combined with negative media coverage of the sector. Furthermore, the government has filed a \$150 million dollar lawsuit alleging that NBTY violated government's policy's regarding distribution of products containing the drug pseudophedrine. Lastly, NBTY has one of the least consistent earnings records in our universe. If the impact on the company proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. Conversely, if the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target.

INVESTMENT THESIS

We rate NBTY a Hold/High Risk (2H) with a \$26 target price. We believe the company has several key strengths including (1) international exposure - about a third of its business comes from the U.K. market, which has been insulated from negative industry trends found in the U.S. and has benefited from a weakening dollar, (2) continued market share gains at the U.S. wholesale business, and (3) the ability to acquire bankrupt wholesale competitors for just pennies on the dollar. We, however, remain cautious given the company's recent slowdown in U.S. sales trends. We therefore rate NBTY a Hold.

COMPANY DESCRIPTION

NBTY Inc. is a vertically integrated nutritional supplement manufacturer, marketer, and retailer operating in the U.S. and internationally. The company sells approximately 1,500 VMS products through: 1) Puritan's Pride, the company-owned catalog division, 2) Vitamin World, a U.S. retailer, 3) Holland and Barrett (H&B), its UK retail chain, and 4) U.S. Nutrition, its VMS wholesale segment. The company seeks to serve the growing number of value-conscious consumers by offering high-quality products at value prices.



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ANALYST CERTIFICATION

APPENDIX A-1

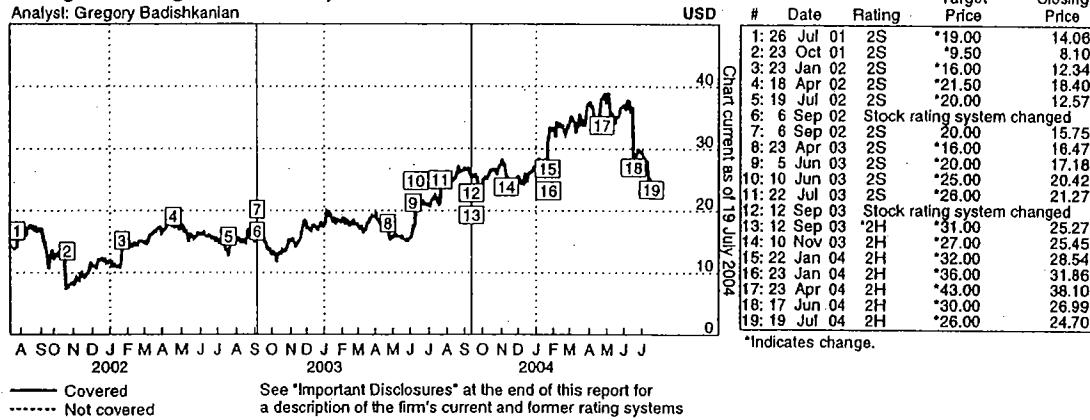
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IMPORTANT DISCLOSURES

NBTY (NTY)

Ratings and Target Price History

Analyst: Gregory Badishkanian



— Covered
---- Not covered

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Data current as of 30 June 2004

	Buy	Hold	Sell
Smith Barney Global Equity Research Coverage (2402)	40%	43%	17%
% of companies in each rating category that are investment banking clients	58%	56%	46%
Natural Products -- North America (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%

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Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H], and Speculative [S].

Investment ratings are a function of Smith Barney's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk rating, or a change in target price. At other times, the expected total returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Between September 9, 2002, and September 12, 2003, Smith Barney's stock ratings were based upon expected performance over the following 12 to 18 months relative to the analyst's industry coverage universe at such time. An Outperform (1) rating indicated that we expected the stock to outperform the analyst's industry coverage universe over the coming 12-18 months. An In-line (2) rating indicated that we expected the stock to perform approximately in line with the analyst's coverage universe. An Underperform (3) rating indicated that we expected the stock to underperform the analyst's coverage universe. In emerging markets, the same ratings classifications were used, but the stocks were rated based upon expected performance relative to the primary market index in the region or country. Our complementary Risk rating system -- Low (L), Medium (M), High (H), and Speculative (S) -- took into account predictability of financial results and stock price volatility. Risk ratings for Asia Pacific were determined by a quantitative screen which classified stocks into the same four risk categories. In the major markets, our Industry rating system -- Overweight, Marketweight, and Underweight -- took into



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account each analyst's evaluation of their industry coverage as compared to the primary market index in their region over the following 12 to 18 months.

Prior to September 9, 2002, the Firm's stock rating system was based upon the expected total return over the next 12 to 18 months. The total return required for a given rating depended on the degree of risk in a stock (the higher the risk, the higher the required return). A Buy (1) rating indicated an expected total return ranging from +15% or greater for a Low-Risk stock to +30% or greater for a Speculative stock. An Outperform (2) rating indicated an expected total return ranging from +5% to +15% (Low-Risk) to +10% to +30% (Speculative). A Neutral (3) rating indicated an expected total return ranging from -5% to +5% (Low-Risk) to -10% to +10% (Speculative). An Underperform (4) rating indicated an expected total return ranging from -5% to -15% (Low-Risk) to -10% to -20% (Speculative). A Sell (5) rating indicated an expected total return ranging from -15% or worse (Low-Risk) to -20% or worse (Speculative). The Risk ratings were the same as in the current system.

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